

# INvesting INdiana

Indiana's Investor Education Newsletter – encouraging every Hoosier to *investigate before you invest*.

Summer 2004

Volume 1: 2

## April Big Month for Financial Literacy

### In This Issue

*Secretary Rokita  
Distributes New Investor  
Awareness Brochures*  
Page 2

*Investor Web Resources*  
Page 3

*Investor Beware: The  
Pump and Dump  
Scheme*  
Page 3

*NASAA News*  
Page 4

*What is a Promissory  
Note?*  
Page 4

*“Moneyville” Exhibit to  
Visit Children’s Museum*  
Page 5



Securities Commissioner James Joven read the April 22 proclamation

Although tax day has most Americans focused on money during the month of April, financial literacy advocates have found other important reasons to talk about personal finance. For state and national investor education programs, April is known as “Investor Awareness Month.” Secretary of State Todd Rokita’s office highlighted Investor Awareness Month with involvement in financial literacy projects and by unveiling a new set of investor awareness pamphlets. The pamphlets address common forms of investment fraud, discuss risks associated with certain investments, and provide tips for avoiding fraud and making good investment decisions.

On April 22, 2004 Indiana Securities Commissioner James Joven read a governor’s proclamation at a presentation in Indianapolis to Broad Ripple High School students marking the day as “Indiana Teach Children to Save Day,” an event made possible through Secretary Rokita’s partnership with the Indiana Bankers Association. Involvement of Fifth Third Bank was a key element in the success of the day’s events. Similar events were coordinated by the IBA throughout the state, with various local banks making presentations at area schools.

More than fifty banks were involved in the activities on April 22 and throughout the month of April, which is also known as “Financial Literacy for Youth Month.”

## On the Web

Are you interested in learning more about investing and finance? Investopedia ([www.investopedia.com](http://www.investopedia.com)), an investment encyclopedia that offers information on investing terms and phrases, is a free resource available to anyone who has access to the Internet.

In addition to a dictionary of investment terms, the site also provides helpful articles about investing, which elaborate on various terms and explain different market phenomena. Through Investopedia, an individual may sign up for several daily and weekly e-mails, including topics like "Term of the Day," "News to Use," and "Investing Basics." An individual wishing to explore investing more thoroughly may find the website's tutorials, as well as the information provided on securities exams, useful.

Finally, Investopedia offers an investing simulator that allows you to learn more about investing by participating in a trade simulation with \$100,000 in virtual cash. Participants in the trade simulation can build a portfolio with stocks found on any major North American stock exchange.

## Investor Beware: Pump and Dump Schemes

In September 2000, CNN reported about a fifteen-year-old who made more than \$250,000 in less than six months by playing the stock market. Unfortunately, it was not his so-called success story that put him in the headlines. Rather, it was the fact that his gains were ill-gotten and even illegal. Jonathan Lebed, a high school junior, ran a fraudulent but all-too-common Internet stock scheme to bring in his fortune.

Lebed used a common Internet scam known as a "pump and dump" scheme, also known as "hype and dump manipulation." Essentially, an individual who owns thinly traded stock of a little-known company will endorse the company and its stock, implying through the endorsement that the stock's value is going to increase rapidly over the next few days or weeks. This creation of false hype is known as "pumping up" the stock. Once hype has been created about the stock, the endorser will sell his/her shares of the stock while the price is up – known as "dumping." Once the stock is dumped, the investors who bought into the scheme are left with a nearly worthless stock that does not live up to the con artist's promises.

Scammers can pump up the stocks in any number of ways. In Lebed's case, he created multiple false identities and then sent e-mails promoting the cheap stocks. In doing this, he made it appear that many different people were promoting the stocks. In other cases, a promoter enters a chat room under multiple names and pumps up a stock, or uses newsletters, bulletin boards, and even instant messaging. No matter how the stock is promoted, pump-and-dump activity is illegal. Jonathan Lebed was ordered

to pay \$285,000 to settle a fraud lawsuit with the Securities and Exchange Commission (SEC). Lebed never admitted or denied his guilt, and his case marked the first time in history that the SEC had brought charges against a minor.

Investors can avoid becoming victims of these schemes by being extremely cautious of any unsolicited investment advice. Unfamiliar e-mails from self-proclaimed "experts" should not be relied upon to make an investment decision. Investors should research the stock independently, making sure that it is worthy of the hype it may be receiving. Once thorough research is complete, then the investor should make an informed decision about what to do with his/her money.

For further reading on pump and dump schemes, individuals may view the SEC article at [www.sec.gov/answers/pumpedump.htm](http://www.sec.gov/answers/pumpedump.htm). Secretary Rokita's office also recommends the following news articles:

"Teen Stock Tout to Pay \$285,000 for 'Pump and Dump' Scheme"  
[www.cnn.com/2000/LAW/law.and.business/09/21/teen.trader/](http://www.cnn.com/2000/LAW/law.and.business/09/21/teen.trader/)

"How Scamsters 'Pump and Dump' Victims"  
[moneycentral.msn.com/articles/smartbuy/scam/2926.asp](http://moneycentral.msn.com/articles/smartbuy/scam/2926.asp)



# Rokita Distributes New Investor Education Materials

*Brochures Identify Common Investing Questions, Problems and Scams*

Indiana Secretary of State Todd Rokita announced in April that his office will begin distributing a series of five new brochures aimed at educating Hoosiers about safe investing.

**"Each year too many Hoosiers lose their life savings to con-artists because they don't base their investment decisions on hard facts. Some fall victim to scams that promise get-rich-quick returns on their investments. Others just don't learn enough about in what and with whom they are investing," Rokita said.**

The five brochures, the titles of which are listed below, cover common investing questions and offer tips about how to avoid scams and scam artists.

**Internet Fraud** - The Internet has given new life to older scams that have been around for years, allowing con-artists to reach millions of people everyday.

**Fraud Aimed at Older Americans** - Seniors are often the target of aggressive scams involving unregistered securities, promissory notes, viaticals, charitable gift annuities and Ponzi schemes.

**Promissory Notes** - A favorite among con artists, promissory notes are routinely used as a legitimate means for companies to raise capital. However, legitimate promissory notes are marketed almost exclusively to corporate or large-scale investors.

**Risky Ventures** - All investments involve some risk, but some investments like viaticals and oil and gas ventures are favorites among con artists.

**Understanding Mutual Funds** - One of the most popular forms of investment in today's market, mutual funds, like all investments, offer risk with the potential for reward.

The brochures, *Internet Fraud*, *Fraud Aimed at Older Americans*, *Promissory Notes*, *Risky Ventures* and *Understanding Mutual Funds*, are available from Secretary Rokita's office or online at [www.sos.IN.gov](http://www.sos.IN.gov). For copies of the brochures, please contact the Secretary of State's Securities Division at 800-223-8791.



# NASAA News

The North American Securities Administrators' Association (NASAA) is continuously involved in investor education efforts on a national level both in the United States and Canada. NASAA is a well-informed, reliable resource for up-to-date information on the securities and investment industries. It offers a myriad of information for investors, ranging from scam awareness to tips for online investing. The newest additions to the NASAA website include a Fraud Awareness Quiz, which contains a series of multiple choice questions about common investment knowledge. Once finished taking the quiz, an individual can view results as well as an explanation of the correct answers.

The direct link to this quiz is

[www.nasaa.org/CsaQuiz/fraud\\_awareness.asp](http://www.nasaa.org/CsaQuiz/fraud_awareness.asp).

## ATTENTION SENIORS

NASAA has also recently launched a "Senior Investor Resource Center" on the NASAA website. Because unsuspecting senior investors are often the targets of investment scams, NASAA developed a list of resources to address their specific needs. The Resource Center includes a list of questions to ask when considering an investment, tips about protecting your nest egg, the investor bill of rights, and a range of other tips, lists and articles for seniors. Go to [www.nasaa.org](http://www.nasaa.org), and choose "Senior Investor Resource Center" from the drop down menu.

## Securities Jargon: Promissory Notes

A *promissory note* is a written promise to pay a sum of money to a specific person at a particular time in the future. In investment terms, this usually means a company has issued a note stating that its investors will receive a return on their investments at a set time. This type of note typically involves a loan to a company made by an investor in exchange for a fixed amount of periodic income. Companies issue these notes to finance any aspect of their business, from launching new products to repaying more expensive debt.

Promissory notes are an important means by which companies raise capital. *Legitimate promissory notes are marketed almost exclusively to sophisticated or corporate investors* who have the resources to thoroughly research the companies issuing the notes and to determine whether the issuers have the capacity to pay the promised interest and principal.

When it comes to investment fraud, promissory notes are a favorite device among con-artists; the notes are generally touted to unsuspecting investors who are enticed by the outrageous promises accompanying the notes. They are sold as instruments that guarantee above-market, fixed interest rates while safeguarding the principal amounts invested.

Although promissory notes *can* be appropriate investments for many individuals, they are increasingly being used as vehicles to defraud investors out of millions of dollars and have become a growing problem for regulators.

For more information about promissory note fraud, please see our pamphlet entitled "Promissory Notes" at [www.sos.in.gov/securities/brochures](http://www.sos.in.gov/securities/brochures). If you do not have Internet access, please contact Stephanie Beck at (317) 232-0734 to inquire about available paper copies.



# Financial Education Exhibit to Open at Children's Museum



Beginning May 29, the Children's Museum of Indianapolis will host an interactive learning exhibit geared toward teaching kids about the many facets of personal finance. The six thousand square foot exhibit, known as "Moneyville," is currently traveling around the United States and is scheduled to continue in various cities through June 2007.

Moneyville's highlights include areas called "The Money Factory," "To Market to Market," "Dollars and Sense," and "Global Trade." Within each area are smaller areas that give children 26 different learning tools. The exhibit's goal is to immerse visitors in the subject of money to build math skills and promote economic literacy in a fun environment, allowing them to explore the history, science and culture of money. Meeting national math and economic standards, "Moneyville" has proven to be a great hands-on educational experience that allows children to acquire real life skills. The exhibit continues at the Children's Museum through January 2, 2005. For more details about the exhibit, please visit [www.childrensmuseum.org](http://www.childrensmuseum.org) or [www.moneyville.org](http://www.moneyville.org).

Moneyville was made possible by the generous support of the National Science Foundation, the James F. and Marion L. Miller Foundation and The NASDAQ Stock Market Educational Foundation, Inc. The exhibit was created and is toured by the Oregon Museum of Science and Industry. MONEYOPOLIS is a registered trademark of Ernst & Young. The MONEYVILLE trademark is used under license.



## Criminal Convictions



Secretary of State Rokita is pleased to present an update regarding recent cases that have recently been prosecuted in part because of the hard work of his Securities Division. Secretary Rokita would like to thank all of the law enforcement officers, agencies, and prosecuting attorneys who have helped enforce the Indiana Securities Act.

- David I. Proctor was sentenced on May 28, 2004 in Marion County after entering into a plea agreement. Proctor was charged with multiple violations of the Indiana Securities Act and received a sentence of five years: four suspended and one year served. He also has to serve seven years of probation, during which he must complete fifty hours of community service each year, and has been ordered to pay restitution in the amount of \$646,850. He must be employed 40 hours a week within 30 days after release from DOC, and he must pay one-half of his income toward restitution during the entire probation period. His obligation for restitution remains for life.
- Casimir C. Szpunar was sentenced on May 28, 2004 in Marion County after entering into a plea agreement. Szpunar had been charged with multiple violations of the Indiana Securities Act and received a sentence of five years: four suspended and one year served. He also must serve seven years of probation, during which he must complete 250 hours of community service, and has been ordered to pay restitution in the amount of \$1,387,550. He must also be employed 40 hours a week within 30 days after release from DOC, and he must pay one-half his income toward restitution during the entire probation period. His obligation for restitution remains for life.
- Charges against Richard J. Drakulich are pending in Marion County. Drakulich is charged with ten counts of selling unregistered securities and ten counts of fraud during the offer or sale of a security. Drakulich is in the Marion County Jail awaiting trial.
- William Hines was sentenced in March 2004 in Newton County. Hines entered into a plea agreement after being charged with several violations of the Indiana Securities Act. Hines was sentenced to one year in the Indiana Department of Correction, one year at the Newton County Jail, two years on work release, and two years probation.



**The Honorable Todd Rokita**  
**Indiana Secretary of State**

---

Indiana Secretary of State  
Securities Division  
302 W. Washington Street  
Room E-111  
Indianapolis, IN 46204  
*Toll-free 800-223-8791*  
**[www.sos.IN.gov](http://www.sos.IN.gov)**

James A. Joven  
*Securities Commissioner*

Stephanie L. Beck  
*Investor Education Coordinator*

*To request additional copies of this or other materials, please contact Stephanie Beck  
by e-mail at [sbeck@sos.in.gov](mailto:sbeck@sos.in.gov) or directly by phone at (317) 232-0734.*

# INvesting INdiana

Indiana Secretary of State Todd Rokita  
Securities Division  
302 West Washington Street, E-111  
Indianapolis, IN 46204